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ACTION WHA-01

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R 171556Z FEB 00
FM AMEMBASSY BOGOTA
TO SECSTATE WASHDC 3380
USDOC WASHDC
DEPT OF TREASURY WASHDC
INFO AMEMBASSY LIMA
AMEMBASSY QUITO
AMEMBASSY CARACAS
AMEMBASSY LA PAZ

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SENSITIVE

STATE FOR WHA/AND
STATE PASS USTR - BHARMAN/PALLGEIER
STATE PASS OPIC FOR OFFICE OF PRESIDENT MUNOZ
STATE PASS EXIMBANK FOR AMERICAS DIVISION
TREASURY FOR OASIA - MCGREW
COMMERCE FOR 4331/IEP/OLA/AND/GAISFORD AND FOR
3134/USFCS/OIO/WH/DLUTTER

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E.O. 12958: N/A
TAGS: ECON, EINV, OTRA, ETRD, EFIN, CO
SUBJECT: OPIC PRESIDENT MUNOZ'S FEBRUARY 9-10 VISIT TO
COLOMBIA

REF: BOGOTA 942

SENSITIVE BUT UNCLASSIFIED; PROTECT ACCORDINGLY.

1. (SBU) SUMMARY: DURING A FEBRUARY 9-10 VISIT TO
COLOMBIA, GEORGE MUNOZ, PRESIDENT/CEO OF THE OVERSEAS

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PRIVATE INVESTMENT CORPORATION (OPIC), DESCRIBED A NEW PRODUCT, POLITICAL RISK INSURANCE FOR PRIVATE SECTOR BONDS WHICH COULD BE UTILIZED IN COLOMBIA, AND ANNOUNCED THAT HE WOULD LEAD A DELEGATION OF U.S. INVESTORS TO COLOMBIA IN THE NEXT SEVERAL MONTHS. THIS NEWS WAS WELL-RECEIVED BY HIGH LEVEL GOC OFFICIALS, INCLUDING PRESIDENT PASTRANA, AND REPRESENTATIVES FROM THE U.S. BANKING AND OIL SECTORS.

2. (SBU) MUNOZ ALSO ENCOURAGED PROGRESS TOWARDS A U.S.-COLOMBIA BILATERAL INVESTMENT TREATY (BIT) AND WAS BRIEFED ON THE STATUS OF PRIVATIZATIONS. GOC OFFICIALS INDICATED THAT CONCERN REGARDING THE VIEWS OF THE CONSTITUTIONAL COURT WILL DELAY BIT NEGOTIATIONS FOR THE NEXT SEVERAL MONTHS. THE GOC REMAINS COMMITTED TO THE PRIVATIZATION PROCESS, BUT PRIVATE BANKERS WERE SKEPTICAL ABOUT THE GOC'S TIMING AND VALUATION OF THE SELLOFFS, GIVEN UNRESOLVED SECURITY ISSUES AND REGIONAL POLITICAL WRANGLING. OIL REPRESENTATIVES EXPRESSED CONCERN ABOUT

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GUERRILLA ATTACKS ON OIL PIPELINES AND POTENTIAL PROBLEMS CAUSED BY THE LACK OF A RENEWAL CLAUSE IN ASSOCIATION CONTRACTS. END SUMMARY.

MEETING WITH PRESIDENT PASTRANA

3. (U) GEORGE MUNOZ, PRESIDENT/CEO OF THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC), KICKED OFF HIS FEBRUARY 9-10 VISIT TO COLOMBIA WITH A MEETING WITH PRESIDENT PASTRANA. THE AMBASSADOR AND ECONOMIC DEVELOPMENT MINISTER JAIME CABAL ALSO PARTICIPATED. MUNOZ OUTLINED A NEW OPIC PRODUCT THAT WILL ALLOW COLOMBIAN BUSINESSES TO GAIN GREATER ACCESS TO U.S. CAPITAL MARKETS THROUGH POLITICAL RISK INSURANCE FOR THEIR BONDS. WHEN USED IN OTHER COUNTRIES THIS HAD REDUCED BOND SPREADS CONSIDERABLY. THE PRESIDENT IMMEDIATELY SAW THE BENEFIT OF THIS PROGRAM FOR COLOMBIA'S MANY CAPITAL DEFICIENT COMPANIES AND DESIGNATED CABAL AS THE GOC'S POINT OF CONTACT. CABAL WILL DEVELOP THE INITIAL LIST OF COLOMBIAN FIRMS BEST SUITED FOR THE PRODUCT.

4. (U) MUNOZ ALSO OFFERED TO LEAD A DELEGATION OF U.S. INVESTORS TO COLOMBIA IN THE NEXT SEVERAL MONTHS. CHIEF EXECUTIVE OFFICERS FROM U.S. TELECOMMUNICATIONS, TOURISM AND ENERGY SECTOR FIRMS WOULD LIKELY COMPOSE SUCH A TEAM. THIS OFFER RECEIVED AN ENTHUSIASTIC RESPONSE THROUGHOUT

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HIS MEETINGS WITH PASTRANA AND SENIOR TRADE AND FINANCE OFFICIALS AS WELL AS WITH BOTH U.S. BANKING AND OIL EXECUTIVES.

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5. (SBU) JUST PRIOR TO MUNOZ'S MEETING WITH PRESIDENT PASTRANA, MINISTER CABAL RAISED THE ISSUE OF OPIC'S FINANCING OF PROPAL, A BANKRUPT COLOMBIAN PAPER COMPANY. THE MINISTER ASKED THAT OPIC FORFEIT ITS SENIOR SECURED POSITION TO "IFI," (INSTITUTO DE FOMENTO, A GOC DEVELOPMENT BANK) TO ALLOW FOR A USD\$14 MILLION LOAN TO PROPAL. MUNOZ RESPONDED THAT OPIC HAD TO MAINTAIN ITS SUPERIOR COLLATERAL POSITION. IN A MEETING WITH SENIOR COLOMBIAN TRADE OFFICIALS, MUNOZ WARNED THAT AN UNSATISFACTORY RESOLUTION TO THE PROPAL MATTER COULD HAMPER HIS ABILITY TO GARNER OPIC BOARD SUPPORT FOR COLOMBIA.

BIT BY BIT

6. (SBU) DURING HIS MEETING WITH SENIOR TRADE MINISTRY OFFICIALS, MUNOZ UNDERScoreD THE IMPORTANCE OF A U.S.-COLOMBIA BILATERAL INVESTMENT TREATY (BIT) TO ATTRACT U.S. FOREIGN INVESTMENT. ADVISOR TO THE MINISTER SILVIA CONSTAIN EXPLAINED THAT GIVEN THE CONSTITUTIONAL COURT'S ACTIVISM AND POLITICAL SENSITIVITY, IT WOULD BE UNWISE TO PROCEED WITH NEGOTIATIONS UNTIL THE COURT HAD CONCLUDED

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AMEMBASSY QUITO
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AMEMBASSY LA PAZ

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SENSITIVE

STATE FOR WHA/AND
STATE PASS USTR - BHARMAN/PALLGEIER
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COLOMBIA

ITS REVIEW OF THE CHILE-COLOMBIA BIT. THIS REVIEW WILL
FOLLOW CONGRESSIONAL APPROVAL, WHICH THE MINISTRY HOPES
TO GAIN IN MARCH. MINISTRY OFFICIALS NOTED THAT THE
CHILE-COLOMBIA BIT WAS BASED ON THE EUROPEAN MODEL, WHICH
PROVIDES A LESSER DEGREE OF INVESTOR PROTECTION.
THEREFORE, IF THE COURT FINDS IT UNCONSTITUTIONAL, THEN A
COLOMBIA-U.S. BIT WILL SURELY BE A NONSTARTER.

PRIVATIZATIONS: DELAYED AND REVALUED?

7. (SBU) THROUGHOUT HIS MEETINGS, MUNOZ ASKED ABOUT GOC
PLANNED PRIVATIZATIONS. U.S. BANKING REPRESENTATIVES,
THOUGH GENERALLY ACCEPTING THAT THE PROCESS WOULD
EVENTUALLY GO FORWARD ACCORDING TO GOVERNMENT POLICY,
WERE SKEPTICAL ABOUT THE GOC'S TIMING AND ITS PRESENT
VALUATION OF ISA (ELECTRICITY TRANSMISSION) AND ISAGEN
(ELECTRICITY GENERATION). THEY ASSERTED THAT GUERRILLA
ATTACKS AGAINST ISA'S TRANSMISSION TOWERS HAD UNDERMINED
INVESTOR INTEREST IN THAT FIRM. ONE BANKER COMMENTED
THAT IT WOULD BE POLITICALLY UNTENABLE FOR THE GOC TO
LOWER THE PRICE OF ISA AND ISAGEN TO A LEVEL ACCEPTABLE
TO A STRATEGIC BUYER. (COMMENT: EVER PRAGMATIC, HOWEVER,
THE BANKERS ARE LIKELY TO BE INTERESTED IN CAREFULLY
REVIEWING THEIR PROSPECTS FOR PARTICIPATION IN ANY
POTENTIALLY VIABLE INVESTMENT STRUCTURE THAT EMERGES.

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END COMMENT).

8. (U) GOC OFFICIALS WERE MORE OPTIMISTIC. VICE MINISTER OF FINANCE FRANCISCO ESTUPINAN SAID THE GOVERNMENT REMAINED TOTALLY COMMITTED TO THE PRIVATIZATIONS, BUT ACKNOWLEDGED THAT LOCAL POLITICS AS WELL AS CERTAIN LEGAL ISSUES HAD DELAYED THE PROCESS. ISAGEN IS PRESENTLY REVIEWING ITS ASSET STRUCTURE TO ENHANCE THE COMPANY'S ATTRACTIVENESS TO INVESTORS. ISA IS PLANNING TO OFFER A PERCENTAGE OF THE STOCK TO THE GENERAL PUBLIC IN AN EFFORT TO "DEMOCRATIZE" THE OWNERSHIP OF THE COMPANY, AND THEREBY DEFUSE GUERRILLA ACTIVITIES AND INFLUENCE.

BANKING ON GROWTH

9. (SBU) OVER LUNCH, MUNOZ ASKED U.S. BANKERS FOR THEIR VIEW ON WHERE THE ECONOMY AS A WHOLE WAS HEADED. ALL SAW A TREND TOWARDS POSITIVE GROWTH BEGINNING IN 2000. CITIBANK ECONOMISTS PREDICT GDP OF ONE TO ONE AND ONE HALF PERCENT; BANK OF BOSTON PREDICTS TWO PERCENT; AND BANK OF AMERICA ESTIMATES ONE TO TWO PERCENT. BY ALL ACCOUNTS, THE GOC HAS SELECTED THE CORRECT ECONOMIC REFORMS, BUT ECONOMIC TURMOIL IN ECUADOR AND VENEZUELA AND THE ABSENCE OF PRIVATIZATION MAY HAMPER RECOVERY.

MEETING WITH U.S. OIL COMPANIES

10. (SBU) MUNOZ WAS BRIEFED BY REPRESENTATIVES OF OCCIDENTAL PETROLEUM, CHEVRON, ESSO, TEXACO, MOBIL AND BP/AMOCO ON NUMEROUS ISSUES AFFECTING OIL OPERATIONS IN COLOMBIA. THEIR MAIN CONCERN WAS SECURITY (REFTEL),

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INCLUDING AN INCREASING FREQUENCY OF ATTACKS AGAINST OIL INFRASTRUCTURE AND KIDNAPPINGS. THESE ACTIONS WERE DEEPENING THE RISK OF DOING BUSINESS IN COLOMBIA TO A LEVEL THAT MADE IT IMPOSSIBLE TO CALCULATE THE COST OF ADDITIONAL SECURITY NEEDED TO OPERATE EFFECTIVELY.
(COMMENT: DESPITE THESE DIFFICULTIES, HOWEVER, NONE OF THE COMPANIES EXPRESSED AN INTENTION TO PULL OUT OF COLOMBIA - AN INDICATION THAT THEY RECOGNIZE THE LONG-TERM VALUE OF THEIR ASSETS HERE. END COMMENT). ONE COMPANY SAID THAT IT HAS RESPONDED TO THE INCREASED RISK BY RETURNING ITS LAND-BASED CONCESSIONS TO THE GOC AND COMMENCING OFF-SHORE DRILLING TO AVOID GUERRILLA ATTACKS

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AND THREATS. A RELATED CONCERN HAS BEEN THE LACK OF ARMY
AND POLICE PROTECTION OF OIL OPERATIONS IN RURAL AREAS
DUE TO LIMITED GOC RESOURCES.

11. (SBU) MUNOZ INQUIRED ABOUT THE LEVEL OF PRICE
SUBSIDIZATION AND PROGRESS TOWARD DEREGULATION BY THE
STATE-OWNED CORPORATION ECOPETROL. ACCORDING TO THE OIL
REPRESENTATIVES, DEREGULATION IS MOVING FORWARD UNDER
ECOPETROL'S NEW PRESIDENT. IT WAS GENERALLY AGREED THAT
COMPARED WITH NEIGHBORING ANDEAN COUNTRIES THE GOC HAS

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BEEN DOING A RELATIVELY GOOD JOB IN ADDING NEW INCENTIVES
TO OIL EXPLORATION CONTRACTS. NEVERTHELESS, ONE FIRM
(CHEVRON) EXPRESSED FRUSTRATION THAT GOC EXPLORATION
CONTRACTS DO NOT CONTAIN A RENEWAL CLAUSE. ITS FORTY
YEAR ASSOCIATION CONTRACT WILL IN ESSENCE EXPIRE IN JUNE
2000, AND IT HAS BEEN UNABLE TO NEGOTIATE A RENEWAL WITH
ECOPETROL, WHICH APPEARS TO FAVOR PUTTING THE CONTRACT UP
FOR COMPETITIVE BID - A DISTINCT DISADVANTAGE TO CHEVRON
WHICH HAS SIGNIFICANT SUNK COSTS. MUNOZ SUGGESTED THAT
HE WOULD CONTACT ENERGY SECRETARY BILL RICHARDSON TO SEE
HOW THE DOE MIGHT PROVIDE SOME TECHNICAL AND REGULATORY
ADVICE TO ASSIST THE GOC TO HELP ALLEVIATE THE OIL
EXECUTIVES' POLICY ISSUES AND SECURITY CONCERNS.

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